



LEVERAGING ORGANISATION DESIGN TO DRIVE EBITDA IMPROVEMENT

A case study of leveraging organization structure re-design to reduce material cost by driving synergistic opportunities in the Purchase/Procurement department

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THE BACKGROUND

This client is a leading consumer brand in India. It is part of a diversified conglomerate with INR 18,000 Cr revenue. While the company has been consistently performing better than the industry in terms of revenue growth, its EBITDA has been lower than some of its peers. The company therefore adopted a goal of improving EBITDA by 5% over the next 2 – 3 years. Apart from other programs, reduction in material cost percentage was an opportunity which the company wanted to fully exploit.

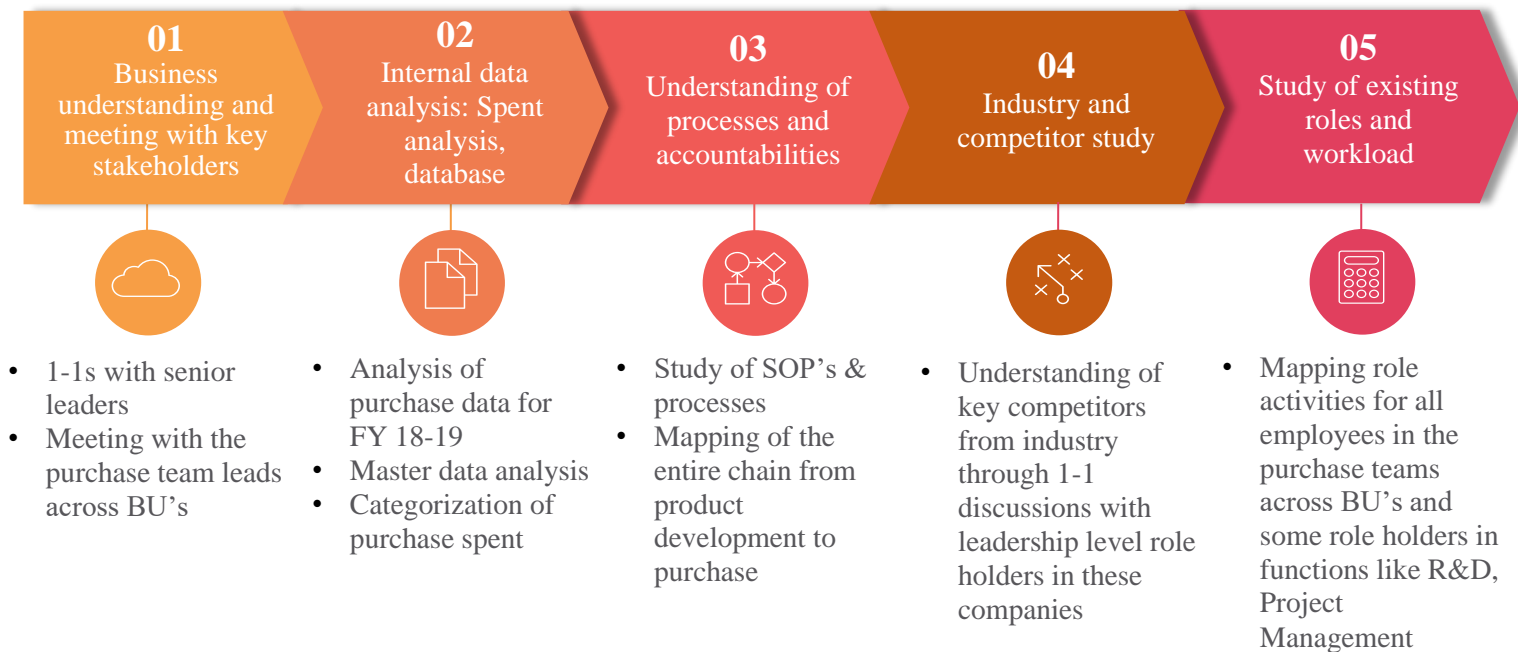
PROBLEM STATEMENT

The company was structured into multiple units each operating within its own field of accountability. The go in hypothesis was that the operations would benefit through an organization redesign to identify and exploit areas of synergy. The CFO felt that a 2-3% reduction in material cost was possible through better buying and better negotiating.

Our engagement with the client was limited to only the Purchase/Procurement department of the organization. Our interactions and analysis of company and industry data helped us understand the following important facets which was then used to design our intervention:

1. Business Unit's worked independently and were not leveraging the synergies of knowledge, volume, network which were available to them
2. Both the processes and the structure of the teams in respective BUs did not enable/facilitate development and sharing of knowledge and expertise on product categories, vendors, synergy opportunities, cost saving opportunities
3. A lack of central vendor repository and control led to redundancy
4. While each BU had its own requirement with respect to the material purchase, most of the core raw materials were same and offered opportunity for synergy
5. Material analysis, vendor management, master data management needed improvement.

OUR APPROACH



The Talentonic team analyzed organization data and processes, had detailed conversations with client leadership team and carried role analysis of the purchase team. Subsequently the following levers to drive synergy were identified:

1. **Product level:** All BOM product groups (like metal and plastic parts, etc.) and Non-BOM product groups (like admin, tooling, marketing, etc.) were evaluated basis the four factors, i.e. scale of operation, forecasting ability, domain capability and level of effort/complexity. Using this, product groups with high synergy opportunities were identified.
2. **Process Level:** SOPs and DOAs for all the BUs were thoroughly examined. In some cases, it was observed that for the same activity (like identification of new vendor, etc.), each BU was having its own set of processes. Hence standard SOPs and DOAs for key processes like vendor enrollment, negotiations, etc. were defined and documented
3. **Structure and People Capability level:** Analyzing the role activities of the purchase team helped us understand that roles were not defined basis expertise. Also, role holders were spending time across multiple activities (without core role defined) leading to overlap/duplicity. Hence roles were re-defined with the rationale that it will help drive accountability, execution and efficiency. Centre of Excellence (COEs) roles were created to drive expertise in buying decisions across critical product categories like packaging, plastics etc. Along with this, a Material Analyst job role was proposed who would manage the databases, MIS, etc. Purchase for Non-BOM items was centralized whereas BOM items were kept with individual BU's purchase team, supervised by a Head SCM
4. **Technology level:** The client was suggested to leverage technologies, like ARIBA, SAP etc. to help BUs identify vendors basis vendor groups, crunch vendor base and drive benefits of scale

BENEFITS OF SYNERGY

1. Procurement spent (67% of revenue being material cost) reduced significantly through introduction of domain experts (COEs) and increasing scale of purchase and through better planning and scheduling basis in-depth RM/category understanding. These new initiatives also helped reduce time to market
2. 44% of the entire material cost was identified with synergy potential and therefore cost optimization opportunity
3. A unified function would give strategic direction to the supply chain management
4. Standardized processes for key activities (like vendor identification, new product development, etc.) helped the organization have consistency among all the BUs, thus less ambiguity
5. Savings in manpower cost realized despite creation of COEs

OUR LEARNINGS

1. While Organization design can have direct impact on the EBITDA through manpower cost, the indirect impact through levers like materials cost management and improvement in buying efficiency can be much higher.
2. The supply chain structures in the Industry have evolved where the direction is towards building a strong function which is able to address issues of materials planning, master data base management, vendor development, domain expertise in select raw materials, process development and in some cases common purchase activity. Such a function not only supports reduction of material cost but also strengthens the organization's ability to forecast better, and time to market
3. Job roles must have clear set of goals and activities. If not, it leads to overlap/duplicity of activities and can result in low efficiency and execution speed